

AR19



ANNUAL REPORT  
for the year ended  
September 30, 1976



holly owned subsidiaries

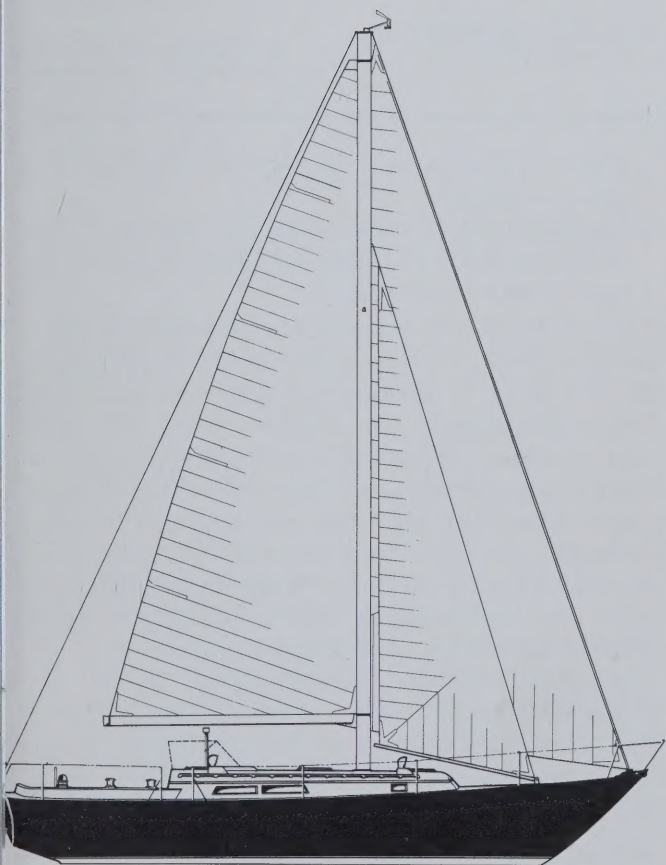
&C Yachts Manufacturing Limited

&C Yachts Inc.



AR19

Financial Report for the  
six months ended 31 March, 1976



C 42 ft. cruiser in series production at Oakville plant

1st quarter

2nd quarter

TRANSFER AGENT & REGISTRAR  
Royal Trust Company  
Toronto & Montreal



**Consolidated statement of earnings (unaudited)**

	For the six months ended March 31	
	1976	1975
Sales	\$6,776,000	\$4,902,000
Cost of Sales	<u>5,383,000</u>	<u>3,784,000</u>
Gross Profit	1,393,000	1,118,000
Expenses	<u>1,113,000</u>	<u>870,000</u>
Earnings before income taxes and extraordinary item	280,000	248,000
Income taxes	<u>123,000</u>	<u>109,000</u>
Earnings before extraordinary item	157,000	139,000
Sale of land (net of tax)	<u>154,000</u>	<u>—</u>
Net earnings for the period	<u>\$ 311,000</u>	<u>\$ 139,000</u>
Earnings per share		
Before extraordinary item	17 cents	15 cents
For the period	33 cents	15 cents

**To the Shareholders**

With sales running 38% ahead of a year ago and 47% ahead of the same period in 1974, it has been possible to improve first half earnings while absorbing \$70,000 of Rhode Island start-up losses. First half operating earnings of 17¢ per share compare with 15¢ in both 1975 and 1974.

During the second quarter:

- Governor Noel of Rhode Island opened the Middletown plant February 6th and two of the lines are now in production with the third scheduled for June.
- Design Group and Head Office were re-located in leased premises at 1226 White Oaks Boulevard, Oakville, Ontario, thus permitting needed expansion of our Metropolitan Toronto retail dealership.
- Our second wholly-owned retail dealership was established to serve the Chicago market.
- Prototype of C&C 29 was completed, tested and approved for production beginning mid-summer.
- Under development and scheduled for appearance at the fall boat shows are C&C 26 and

**Consolidated statement of source and use of funds (unaudited)**

	For the six months ended March 31	
	1976	1975
<b>Source of funds</b>		
Income before extraordinary item	\$ 157,000	\$ 139,000
Depreciation and amortization	<u>175,000</u>	<u>182,000</u>
Provided from operations	332,000	321,000
Proceeds from sale of land (net of tax)	328,000	—
Drawdown of funds held in trust for plant construction	547,000	—
Proceeds of long term debt	<u>1,150,000</u>	<u>—</u>
	<u>2,357,000</u>	<u>321,000</u>
<b>Use of funds</b>		
Purchase of fixed assets	1,069,000	169,000
Increase in other assets	93,000	—
Reduction of long term debt	19,000	51,000
Dividend	<u>114,000</u>	<u>114,000</u>
	<u>1,295,000</u>	<u>334,000</u>
Increase (Decrease) in working capital	<u>\$1,062,000</u>	<u>\$ (13,000)</u>

a new 42 ft. cruising yacht to be built in series at the Oakville plant.

- The remaining 12 acres on Speers Road, Oakville were sold which will result in further extraordinary gain in the third quarter.

Just over a year has elapsed since the decision to invest in greatly increased productive capacity in North America. In addition to Middletown coming on stream, this capacity now achieved is due to greater volume attained at Niagara than previously existed. Since a large portion of our sales are achieved in the Great Lakes Basin and North American Atlantic Seaboard, attention now is being directed toward increasing our capability in marketing the larger plant production now available. Dealer network is being studied, particularly as to character, density and geographic coverage; considerations of broader product line are evident in the new 42 ft. yacht and the current three-model C&C 24 marketing program. We continue to anticipate a sales year of the order of \$17 million.

George H. Cuthbertson,  
President  
Oakville, Ontario

**C&C Yachts Limited**  
**1226 White Oaks Blvd.**  
**Oakville, Ontario**

**WHOLLY OWNED SUBSIDIARIES**

C & C Yachts Manufacturing Limited

C & C Yachts Inc.

C & C Yachts GmbH

**DIRECTORS**

Alan F.B. Taylor

George H. Cuthbertson

Peter J.M. Bloemen

Erich K.L. Bruckmann

Michael F.K. Carter

J. Robert Forsey

Christopher D. Hyde

Robert R. Sale

Bruce A. Sully

**OFFICERS**

Alan F.B. Taylor

Chairman of the Board

George H. Cuthbertson

President & Chief Executive Officer

Rob W. Ball

Vice-President

Gordon W. Brinsmead

Vice-President

Erich K.L. Bruckmann

Vice-President

Michael F.K. Carter

Vice-President & Secretary-Treasurer

J. Robert Forsey

Vice-President

**AUDITORS**

Messrs. Coopers & Lybrand,

Chartered Accountants

145 King Street West, Toronto

**LEGAL COUNSEL**

Messrs. Miller, Thomson,

Sedgewick, Lewis & Healy

7 King Street East, Toronto

**TRANSFER AGENT & REGISTRAR**

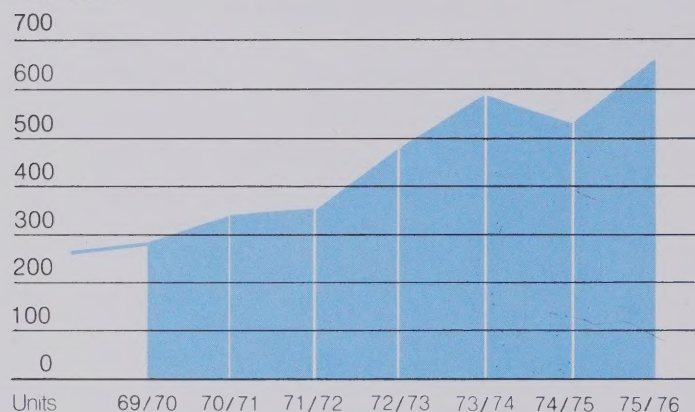
Royal Trust Company

Toronto & Montreal

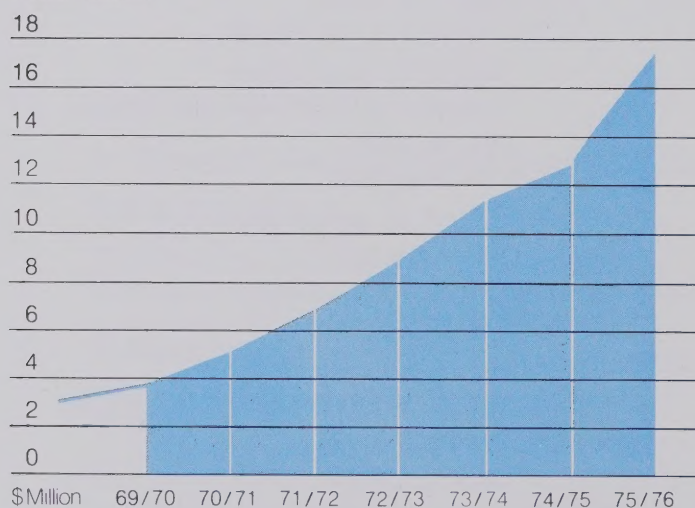


# Report of the president to the shareholders

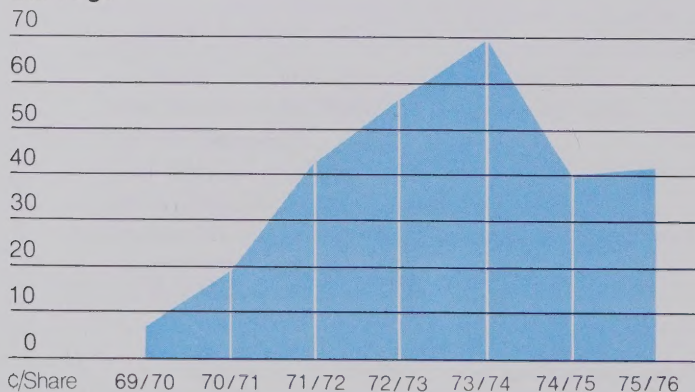
## Unit Sales



## Dollar Sales



## Earnings\*



\*excluding extraordinary items

During the fiscal year ending September 30, 1976, C&C Yachts Limited emerged from the post-recession recovery as the leader in the North American sailing yacht industry. Sales increased 31% to over \$17 million and matching high unit production was achieved utilizing less plant and fewer personnel than most competitors.

These efficiencies, however, were offset by—

- the burden imposed by the high valuation of the Canadian dollar throughout the period
- increasing European expenses resulting in current plant construction at Kiel, West Germany
- lack of contribution from Rhode Island plant which did not achieve full start-up before application for union certification was filed, leading to limited operations throughout a summer committed to labour contract negotiation
- the abrupt industry-wide market downturn which followed the buoyant spring months.

The result was depressed fourth quarter results and higher year-end inventories in finished goods and raw materials. The inventories, while high, are exaggerated by comparison with unusually low levels at year end in 1975 plus the effect of additional plant this year. 1977 will see installation of automated data processing systems now being developed.

Nevertheless, earnings of 41 cents per share were achieved from operations and were augmented by a further 43 cents realized from the sale of land in Oakville. The combination resulted in a 36% increase in retained earnings from \$1,925,000 to \$2,620,000.

—Working capital doubled from \$1.24 million to \$2.63 million and ratio of current assets to current liabilities increased to 1.6:1.

—During the year 36,000 shares were issued to key staff for \$88,000 as part of an incentive plan.

—A dividend of 12 cents per share was again paid.

As reported in the quarterly statements, growth emphasis has shifted to our U.S. and European operations, hence the decision to sell the Oakville land acquired in 1973. At that time, a development based on expansion of custom building operations and incorporating Head Office, Design and Retail Sales was planned. Head Office, Design and R & D functions were re-located in mid-year to leased premises in Oakville.

## Manufacturing

### Production Plants — Niagara and Rhode Island

Aided by new model acceptance, Niagara production was high and efficient throughout the first three quarters. C&C 38 in particular found a receptive market and 92 of these yachts were built, a total substantially in excess of original expectations and exceeded only by C&C 27 which continued to show market strength and C&C 24 which nevertheless did not sell in the numbers anticipated.

Environmental considerations with attendant efficiencies resulted in installation of a new water-wash spray booth facility



at Niagara and a cyclonic wood-waste collection system. In total, Niagara produced 4,232,400 lbs. of product compared to 3,235,300 lbs. in the previous year.

Rhode Island plant was completed during the year, essentially on schedule and on budget. Despite the delays in start-up, the anticipated economies and efficiencies in production are already becoming apparent.

Both plants now are served by an industrial relations officer and product cost analysis has been upgraded with the establishment of a formalized industrial engineering function.

To ensure full utilization of our increased productive resources, two projects are in hand:

1. Our present full-line dealer network is being expanded and at the same time a group of supplementary small boat dealerships is emerging. The result will be strong C&C presence in all the significant boating areas of North America in contrast to previous coverage which was limited primarily to eastern seaboard, Great Lakes Basin and Pacific Northwest.
2. Application has been made to the Minister of Finance for extension of existing duty remission program to cover the sailing craft industry. Approval of this rationalization proposal would result in more efficient use of our eight production lines and ensure availability of our full product line to both Canadian and U.S. markets.

New model introductions at the two production plants include C&C 29 which was introduced at the Fall boat shows, C&C 26 which will be in dealers' showrooms by the first of the calendar year and C&C 36 joining our line in the spring.

The protracted labour negotiations in Rhode Island resulted finally in a two-year contract through October 10, 1978 with the United Brotherhood of Carpenters and Joiners of America, who also represent our employees in Niagara. With continuity of labour assured, the experience and skills possessed by our employees, and anticipation of adequate material supplies, these two plants, fundamental to your company's operations, may be expected to prosper in the coming year.

#### **Custom Plant — Oakville**

The sales volume absent for several years was largely restored as 25 units ranging from 29 ft. to 61 ft. were delivered to Canadian, U.S. and European owners. Additionally, the entire Landfall 42 development project was accomplished although only one delivery was made during the fiscal year.

Some plant improvements were undertaken to more efficiently accommodate series projects and the no longer adequate office and customer facilities were brought up to acceptable standards.

#### **Design, Research and Development**

Completed design projects included the new C&C 26 and C&C 29, the Landfall 42 cruising yacht, successful one ton and three-quarter ton designs and highly competitive two ton

designs from which 14 have been built or are under construction — probably the largest group of two tonners from any one design office in 1976. Additionally, a 17 ft. day sailer was developed for Boston Whaler Inc. and is now in mass production and marketed throughout North America under the name of Harpoon 5.2.

R&D continued programs of model testing at National Research Council and Massachusetts Institute of Technology and included some aerodynamic studies at University of Toronto wind tunnel facility. However, the focus of attention was on an exclusive foam core system that already has resulted in substantial savings in mould construction costs; this process is expected in time to have impact on the product similar to that experienced when balsa cored laminates were introduced to the industry by this company 10 years ago.

#### **Retail Operations**

Our home market dealership at Oakville was joined this year by a second company owned retail outlet opened in April at Chicago, located in permanent waterfront quarters. Although established too late to be of significance in the year's operations, costs of establishment and start-up have been absorbed and the presence exists for a full sales year in 1976/77.

Oakville retail continued to grow and prosper although not exempt from the fourth quarter downturn. We continue to be alert to possibilities of re-location ideally to a waterfront site.

#### **Europe**

In June, your Board of Directors approved construction of a 27,000 sq. ft. plant at Kiel, West Germany. We have since purchased land and contracted for construction of buildings. Financing, both short and long term, has been finalized and the basis for grants provided by the state government has been agreed. The first set of moulds for the C&C 30E has been shipped to Kiel for commencement of a training program in temporary quarters through the winter.

#### **Future**

The past several years have been committed to growth and expansion. Although slowed somewhat through the recessionary period, the sales progression has continued without pause and it has been possible to maintain a reasonable degree of profitability throughout.

With completion of the Kiel facility next spring, our company will have the potential for sales in excess of \$30 million per annum. The current growth phase will have been accomplished and, as the rate of change reduces, management can concentrate on operations and efficient utilization of the substantial resources which have been created.

The year's accomplishments result directly from the diligent and enthusiastic work of our employees. Their support and that of our shareholders is acknowledged with thanks.

Submitted by George H. Cuthbertson, President.



## C &amp; C Yachts Limited and subsidiary companies

## Consolidated balance sheet as at September 30, 1976

ASSETS	1976	1975
<b>CURRENT ASSETS</b>		
Cash and short term deposits	\$ 10,000	\$ 41,000
Accounts receivable	1,267,000	1,067,000
Inventories (note 2)	5,656,000	2,594,000
Deposits and prepayments	259,000	238,000
	7,192,000	3,940,000
Mortgage receivable (note 9)	352,000	—
Trust funds for Rhode Island plant construction	—	639,000
Fixed assets (note 3)	3,820,000	2,811,000
Other assets and deferred expenses (note 4)	556,000	334,000
Excess of cost of shares in subsidiary companies over net book value at date of acquisition	2,493,000	2,493,000
	14,413,000	10,217,000

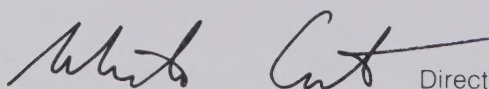
**LIABILITIES**

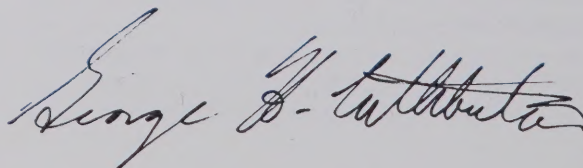
<b>CURRENT LIABILITIES</b>		
Bank indebtedness (note 5)	2,410,000	971,000
Accounts payable and accrued liabilities	1,498,000	1,044,000
Deposits from customers	503,000	561,000
Income taxes payable	154,000	123,000
	4,565,000	2,699,000
Long term debt (note 6)	3,057,000	1,548,000
Deferred income taxes	218,000	180,000
	7,840,000	4,427,000

**SHAREHOLDERS EQUITY**

Capital stock (note 7)	3,953,000	3,865,000
Retained earnings (note 8)	2,620,000	1,925,000
	6,573,000	5,790,000
	14,413,000	10,217,000

Signed on behalf of the board:


 Director


 Director



**C & C Yachts Limited and subsidiary companies**

# Consolidated statements of earnings and retained earnings for the year ended September 30, 1976

## STATEMENT OF EARNINGS

	1976	1975
Sales	\$17,037,000	\$12,966,000
Cost of sales	13,476,000	10,375,000
Gross profit	3,561,000	2,591,000
Selling and administrative expenses	2,549,000	1,769,000
Interest expense—short term debt	86,000	140,000
—long term debt	238,000	20,000
	2,873,000	1,929,000
Earnings before income taxes and extraordinary items	688,000	662,000
Income taxes	289,000	284,000
Earnings before extraordinary items	399,000	378,000
Extraordinary items (note 9)	410,000	—
Net earnings for the year	809,000	378,000
Earnings per share*		
Before extraordinary items	41 cents	40 cents
For the year	84 cents	40 cents

\*Based on average number of shares outstanding during the year

## STATEMENT OF RETAINED EARNINGS

Balance—beginning of year	1,925,000	1,661,000
Net earnings for the year	809,000	378,000
	2,734,000	2,039,000
Dividend	114,000	114,000
Balance—end of year	2,620,000	1,925,000

## AUDITORS REPORT TO THE SHAREHOLDERS

November 24, 1976

We have examined the consolidated balance sheet of C&C Yachts Limited and subsidiary companies as at September 30, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Coopers & Lybrand* Chartered Accountants

# Consolidated statement of changes in financial position for the year ended September 30, 1976

## SOURCE OF FUNDS

	1976	1975
Provided from operations—		
Earnings before extraordinary items	\$ 399,000	\$ 378,000
Items not affecting working capital—		
Depreciation	548,000	385,000
Amortization	96,000	—
Deferred income taxes	38,000	35,000
	1,081,000	798,000
Proceeds of disposal of land (net of tax)	782,000	—
Proceeds of long term debt	1,650,000	1,548,000
Issue of common shares	88,000	—
	3,601,000	2,346,000

## USE OF FUNDS

Purchase of fixed assets	1,290,000	1,089,000
Trust funds for plant construction	—	639,000
Mortgage on sale of land	352,000	—
Other assets and deferred expenses	318,000	334,000
Reduction of long term debt	141,000	133,000
Dividend	114,000	114,000
	2,215,000	2,309,000
Increase in working capital	1,386,000	37,000
Working capital—beginning of year	1,241,000	1,204,000
Working capital—end of year	2,627,000	1,241,000



**C & C Yachts Limited and subsidiary companies****Notes to consolidated financial statements  
for the year ended September 30, 1976****1. ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies followed by the company:

a) Principles of consolidation

The consolidated financial statements include the operations of all subsidiary companies. In consolidation, all material intercompany accounts and transactions are eliminated.

b) Foreign exchange

Assets and liabilities in foreign currencies have been translated as follows:

Current assets and liabilities at approximate year end rates; long term assets and liabilities at rates prevailing at date of transaction; income and expenses at the average rate of exchange in effect during the year.

c) Inventory valuations

Finished yachts and yachts in process have been valued at the lower of cost or net realizable value. Raw materials and supplies have been valued at the lower of cost or replacement cost, with cost determined on the first-in, first-out basis.

d) Depreciation

The policy of the company is to depreciate the cost of its buildings, machinery and equipment over their estimated useful lives by annual charges to operations, using the reducing balance method at the following rates:

Buildings	5 percent
Machinery and equipment	20 percent
Automotive equipment	30 percent

No depreciation is charged on construction in progress.

Mould costs are being charged to operations over the estimated marketing life of the model on a straight line basis.

e) Research and development

The policy of the company is to charge research and development expenditures to income as incurred.

f) Deferred expenses

The company is deferring costs related to financing and start-up of its plant in Rhode Island. Financing costs will be amortized over the life of the loan. Start-up costs are being written off over the first 18 months of production, which commenced March, 1976. Start-up costs of the company's plant in Kiel, West Germany are being deferred and will be written off over the first 18 months of production, expected to commence in May, 1977.

**2. INVENTORIES**

	1976	1975
Finished yachts	\$2,563,000	\$ 816,000
Yachts in process	609,000	506,000
Raw materials and supplies	2,484,000	1,272,000
	5,656,000	2,594,000

**3. FIXED ASSETS**

	1976			1975
	Cost	Accumulated depreciation	Net	Net
Land	\$ 334,000	\$ —	\$ 334,000	\$ 617,000
Buildings	2,391,000	375,000	2,016,000	1,070,000
Machinery and equipment	1,142,000	394,000	748,000	299,000
Moulds	623,000	102,000	521,000	310,000
Leasehold Improvements	213,000	12,000	201,000	—
Construction in progress	—	—	—	515,000
	4,703,000	883,000	3,820,000	2,811,000



4. OTHER ASSETS AND DEFERRED EXPENSES	1976	1975
Loan to shareholder trust	\$ 88,000	\$ —
Funds in trust for service of Rhode Island debt	164,000	164,000
Unamortized financing costs	102,000	99,000
Deferred start-up expenses	201,000	53,000
Other	1,000	18,000
	556,000	334,000

#### 5. BANK INDEBTEDNESS

Bank indebtedness and bank loans are secured by general assignments of book debts, specific charges on the mortgage receivable and certain fixed assets, and floating charge debentures over the remaining assets of the company and its subsidiary companies.

6. LONG TERM DEBT	1976	1975
C&C Yachts Inc: Rhode Island Port Authority 8% Industrial Revenue Bonds US\$1,500,000 a)	\$1,548,000	\$1,548,000
Revolving Bank Loan US\$ 500,000 (note 5)	500,000	—
C&C Yachts Manufacturing Limited: Term Loan 12-3/4% b)	1,102,000	—
	3,150,000	1,548,000
Less: due within one year included in accounts payable	93,000	—
	3,057,000	1,548,000

a) In 1975, the Rhode Island Port Authority purchased land and constructed a plant for the company at Middletown, Rhode Island. The Authority financed the plant by the issue of bonds repayable in instalments over a 20 year period. C&C Yachts Inc. rents this facility on a net lease basis for annual payments sufficient to fully service the debt, and will purchase the facility for \$1 on repayment of the debt. C&C Yachts Limited and C&C Yachts Manufacturing Limited have guaranteed the obligations of C&C Yachts Inc. under this agreement. Under terms of the financing agreement, an amount equal to one year's debt service is required to be deposited with the trustees.

The company is accounting for the transaction as a purchase of assets and issue of debt.

b) Secured by mortgage on land, buildings and equipment at that company's plants in Niagara-on-the-Lake and Oakville, Ontario, and a subordinated floating charge and guaranteed by C&C Yachts Limited. Due December, 1980.

c) Principal repayment requirements on long term debt over the next five years are as follows:

	1977	1978	1979	1980	1981
U.S. \$	35,000	140,000	140,000	145,000	150,000
Cdn. \$	58,000	57,000	58,000	57,000	872,000

Of these amounts US\$100,000 per year from 1978 relates to the revolving bank loan which may be extended at the option of both parties or converted into a five year term loan.

#### 7. CAPITAL STOCK—Authorized 2,000,000 shares without par value.

Issued and fully paid 986,000 shares (1975 - 950,000)

During the year the company issued 36,000 shares to a trust for the benefit of key officers of the company at a price of \$2.46 per share, which was 95% of the market price of the shares at the time. An interest free loan, which matures within five years, was provided to the trust to finance this purchase.

#### 8. DIVIDEND RESTRICTION

The company is subject to restraint of dividends as a result of the Federal Anti-Inflation Program which limits dividends which the company may declare in the next year to a maximum of 25% of net earnings for the year ended September 30, 1976 of \$809,000.

#### 9. EXTRAORDINARY ITEMS

In two separate transactions, approximately 22 acres of land were sold during the year. Proceeds, which amounted to \$891,000 less income taxes of \$109,000, were cash and mortgages, one of which has since been paid. The remaining mortgage bears interest at 1% over the prime bank rate and is payable \$100,000 in November, 1977 and the balance in November, 1978.

#### 10. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid by the company and its subsidiary companies to the directors and senior officers (as defined by The Business Corporations Act) was \$316,000 in 1976 (\$237,000 in 1975).

#### 11. SUBSEQUENT EVENT—EUROPEAN INVESTMENT

C&C Yachts GmbH, a wholly owned subsidiary of the company incorporated during the year, has entered into agreements to construct a 27,000 sq. ft. plant in Kiel, West Germany, at an estimated cost of \$680,000. In connection therewith, C&C Yachts GmbH has agreed to borrow DM 1,315,000 from the Wirtschaftsaufbaukasse Schleswig-Holstein. Security for this loan will be a first mortgage on the plant and the guarantee of C&C Yachts Limited. The balance of funds will be provided by grants from the State of Schleswig-Holstein and from the company's own resources.





**Head Office****C & C YACHTS LIMITED**

1226 White Oaks Boulevard  
Oakville, Ontario L6H 2B9

**Subsidiaries****C & C YACHTS****MANUFACTURING LIMITED**

526 Regent Street  
Niagara-on-the-Lake  
Ontario L0S 1J0

1490 Speers Road  
Oakville, Ontario L6L 2X6

**C & C YACHTS INC.**

Box C, Oliphant Lane  
Middletown, Rhode Island  
02840

**C & C YACHTS GmbH**

Kiel, West Germany  
(under construction)